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FOREIGN SERVICE DESPATCH

DEPARTMENT OF STATE A/CDC/AB

FROM : Amembassy TAIPEI

168

TO : THE DEPARTMENT OF STATE, WASHINGTON, D.C. DATE: 10/12/59

REF : 10/12/59

67	ACTION	DEPT.	10/12/59
For Dept.	REC'D	IN	10/12/59
Use Only	10/19	OTHER	10/12/59

SUBJECT:

Widespread Corruption in Taiwan.

Direction to DC/R

SUMMARY

A number of well-informed persons with whom the Reporting Officer has talked have described corruption in government circles in Taiwan as almost omnipresent and increasing in intensity. While it is especially difficult to gauge the trend in corruption, in view of its nature, it seems clear that it is widespread and relatively few effectual steps have been taken recently to do anything about it. Corruption, however, is not at present at the level it reached after World War II nor have the amounts involved and the greediness of the practice reached post World War II degrees. Also, the effect of corruption is less than it was on the mainland because it is not accompanied by a greater rate of inflation and the organized subversive activities of the Communists. END SUMMARY

During the last month and a half the Reporting Officer has been living with a Chinese family and has participated in many an evening's conversation with a number of Chinese businessmen and officials. The inevitability of squeeze is taken as a matter of everyday existence. The conversations implied that there are only two ways to get the government in Taiwan, at any level, to do anything, 1) to pay the right person his squeeze, or 2) to "know" the right person. This is taken for granted by non-government persons, but it is not liked.

The Reporting Officer believes that corruption has been increasing during the last several years, though it is difficult to document such a statement and one runs into the foibles of the human memory. Corruption does not always come so readily to the attention of foreigners in Taiwan, perhaps because of a conscious effort by the government to make sure that attempts are not made to squeeze foreigners with diplomatic privileges. The RO recalls, as one example, an effort by a local police officer to raise the charges for reimbursement for injuries to a civilian bitten by the RO's dog. The officer, not knowing the RO spoke Chinese, asked the Chinese civilian how much his medical and other expenses were, and then added an additional healthy sum before he translated for the RO. When a telephone call was made to his superiors, the case was magically ended.

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The action office must return this permanent record copy to DC/R files with an endorsement of action taken.

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Similar cases become more complicated for foreigners without diplomatic privileges. Missionaries and various Ford, Rockefeller and Asia Foundation scholars find themselves asked to pay extra charges at the customs, for example.

It is only with the Chinese, however, that the real squeeze seems to be felt. It is generally taken as a matter of fact that if an item of business is held up in a government office with its interminable required "chops", someone is waiting for his squeeze. The RO's landlord, for example, tried to get an entry permit for his two sisters-in-law to come from Hong Kong, last June. By mid-September, he thought it was obvious that someone was holding out for squeeze. They were. He decided he wasn't going to be subject to such monkey-shines. His wife pointed out that she hadn't seen her sisters for more than five years. The result was the sisters-in-law have just arrived, and someone passed someone else some money in order to get the entry permits approved.

The biggest squeeze involves, naturally, the business world. In an effort to find out more about the degree of corruption, the RO talked with several businessmen and government officials. No one knows of a company that honestly pays all its taxes, especially business income tax. Two memoranda of conversation with them are appended to this despatch, as more detailed examples of comments on corruption.

[REDACTED] is a businessman who can make some useful comparisons with conditions in Communist China, which he left in December, 1955. He maintains the GRC is making the same mistakes in Taiwan it made on the mainland with such disastrous results. Corruption, great inefficiency compared to the Chinese Communists, and unnecessary emphasis on the military establishment particularly irritate him. He detailed several instances of many which he personally knew of that involved corruption. [REDACTED] also remarked that economic figures were most unreliable, that little improvement was being made in mainland-Taiwanese relations, that the President's emergency edict of September 1 was viewed by the public as largely a soak the poor program, that there was no real animosity toward Americans in Taiwan, that the United States might be pushing too hard for democracy in Taiwan, and that he was not impressed by evidences of American "culture" in Taiwan.)

[REDACTED] an adviser to the Overseas Affairs Commission [REDACTED] was concerned about the desire of most government officials to simply stay out of trouble. The multiplicity of governmental organs depressed him since they made it harder to get anything done. He was worried about the increasing

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tendency of government officials to think their job is to control - not to help - people in private life. He had pinned high hopes on the Wang Yun-wu "Hoover-type Commission", but it, too, seemed to have had little success. He thought corruption was definitely on the increase. Like [REDACTED] he attributed it largely to the desire of officials to settle down and prepare themselves financially for the long haul on Taiwan and to the increasing cost of living which was forcing lower echelon personnel to do something to supplement their income. In regard to the increasing cost of living, reference is made to Embassy despatch 661, dated May 20, 1959 entitled, "Semi-annual Assessment of the Economy of China", which indicated real wages have gone down since 1955. ED

Other comments were similar; no one thought there was little corruption or that it was decreasing. One person thought corruption had been great for a long time but only recently were people willing to admit it openly.

Means of Reducing Corruption

In the present circumstances in Taiwan, it seems unlikely that corruption can be more than ameliorated. Steps to ameliorate it would have to include provisions for the following factors:

- 1) a decent income for each government employee;
- 2) a reduction in the number of duplicating and multi-leveled government organizations;
- 3) a reduction in the total number of government employees;
- 4) a shift away from the government tendency to control for the sake of control;
- 5) a change in the government employees' allowance system, whereby little cash is provided but large allowances are made for upper level officials for housing, cars, food, fuel and other perquisites. If the upper-middle and upper echelon employees were paid only in cash they could start to buy things - such as houses - thus, they could retire and junior government employees could look to a future in which they might be promoted instead of stagnating at one level indefinitely;
- 6) a beginning on reform should be made by a wholesale cleansing of the judiciary, who presently are held in little confidence; and

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- 7) a wholesale revamping of the tax structure which would involve much lower - but more efficiently collected - taxes.

COMMENT:

Opinions similar to those reported in the enclosures have wide currency in Taiwan at the present time, and undoubtedly possess a basis in fact. Peculation and squeeze on a small scale are regularly resorted to by personnel of the armed forces and the bureaucracy as a means of supplementing completely inadequate incomes, in some cases with the tacit approval of the Chinese agencies involved. This sort of corruption is doubtless on the increase, as the gap between salaries and living costs broadens. However, it should be noted, not in extenuation, but as a means of placing the corruption in context, that it is not as prevalent as it was in the Taiwan of 1949; nor, according to the testimony of businessmen familiar with other Asian countries, has it assumed the proportions of the problem in Korea, the Philippines or Vietnam, for example. With regard to corruption on a larger scale, as is shown by published cases of judicial corruption, scandals in the manipulation of cement, and instances of connivance between magistrates and contractors, etc., such serious corruption does exist. Yet, as the same facts indicate, corrupt officials are in many instances being brought to justice. Also, it is clear that the size of the amounts changing hands in such corrupt deals is rather modest as compared with the early post-war years on the mainland.

For the Ambassador:

Alexander L. Peaslee
Alexander L. Peaslee
First Secretary of Embassy

Enclosures:

1. Memorandum of Conversation with Theodore K. Heinrichsohn
2. Memorandum of Conversation with CHANG Pi-teh.

(b)(6)

301 (6)

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MEMORANDUM OF CONVERSATION

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PARTICIPANTS: [REDACTED] businessman.
Alexander L. Peaslee, First Secretary of Embassy. ED
DATE: September 9, 1959
SUBJECT: Views of Sino-German Businessman Concerning China.

[REDACTED]
[REDACTED] went to school in Shanghai at the American School where he was an outstanding student and athlete. In fact, in the spring of 1949 he received twelve scholarship offers from American universities, but he was unable to accept them because the arrival of the Communists made it impossible for him to receive his high school diploma. [REDACTED] is obviously intelligent and observant. His Eurasian background makes it easier for him than for Westerners to observe some of the attitudes of Chinese. He speaks Mandarin, at least some Shanghai dialect, perfect English and German. The Reporting Officer knew his father [REDACTED] and [REDACTED] himself in Shanghai during 1948 and 1949. He is observant and objective.

[REDACTED] after the Communists arrived, was not allowed to leave China until December, 1955. When he arrived in Hong Kong he was offered some work by the British intelligence services, but he - as he puts it - refused on the grounds that his mother was still in China (his father by that time was in Germany). [REDACTED] states that the British, American and Chinese intelligence services all impressed him as having an excellent picture of conditions in Communist China as of the time he came out. He intimated that the American and Chinese intelligence people interviewed him, but provided no details.

[REDACTED] He receives a six months paid vacation in Europe every three years.

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Irritation at GRC's Same Mistakes

Upon his arrival in Taiwan about a year and a half ago (after about two years in Germany and a year in Japan) he found himself immediately irritated by what he thought was the tendency of the GRC to make the same mistakes it made on the mainland with such disastrous results. Corruption (see below), great inefficiency compared to the Chinese Communists, and unnecessary emphasis on the military establishment particularly irritated him. He remarked to the Reporting Officer that traffic control was just one of many examples of GRC inefficiency. In this respect - efficiency - he thought the Communists were much farther ahead.

No Need For Size of GRC Military Establishment

In the case of the relatively large military establishment in Taiwan, [redacted] thinks much of it is useless. For defensive purposes, he could see the justification of very considerable forces, though much smaller than "the more than 500,000 they have". As for the GRC argument that all that is needed is for some troops to land on the mainland and there will be a general uprising against the Communists, [redacted] thought this was high impossible. "No Chinese on the mainland is going to rise up to help anyone. They're not going to get caught on the wrong side. You remember how they welcomed the Communists into Shanghai? Well, they traded the devil for his grandfather, and they're not about to welcome anyone!" The only outlook for the mainland he could see was a long, slow evolutionary process in which many people were hurt, but gradually some fairly efficient system would be evolved which would have many elements of socialism and of democracy and not so much of Communism. (b)(6)

Corruption in Taiwan

According to [redacted] corruption is festering everywhere in Taiwan. The only organization associated with the GRC in any way that is not a "cesspool of corruption" is the Joint Commission on Rural Reconstruction, "and that agency is infiltrated by corruption". [redacted] said that his company [redacted] or the firm in Taiwan in which he is a partner, [redacted] has had occasion to deal with most of the GRC agencies in Taiwan, and they get "squeezed" every time. He considered the Council for United States Aid (CUSA), the Central Trust, the tax offices and the Customs as among the worst. When the RO asked about such agencies as the Ministry of Communications and its subsidiaries (which have a relatively good reputation) he said they were also bad, but the opportunities for squeeze were less. (b)(6)

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[redacted] said a number of people in JCRR asked for "kickbacks" when he quoted prices for insecticides, but he told them he would have nothing to do with that type of business in JCRR. The Quartermaster people in the military he found particularly venal. He had, on a number of occasions, been approached by Quartermaster personnel who assured him that for a financial consideration they could obtain any sort of bid information he needed before the bidding was completed, or any other type of information he needed. (b)(6)

[redacted] said he regularly receives shipments which are held in the customs until he can produce an analysis of the product. Since the product may be patented, [redacted] "would have his head" if he gave the analysis (if he could get it). The Customs refuse to clear the shipment, his customers begin to scream, what can he do? [redacted] makes a trip to Keelung, invites the customs people and their wives out for dinner, gives their wives presents. If nothing happens, he does it again, and passes them some money. When the right amount has been received, the shipment is classified in a lower tariff category, and the shipment is immediately cleared. "If I don't do this, we get nothing through customs", he claims. He said he didn't blame the officials at the lower levels, they get little pay and they must seek some outlet for enough income to support their families. Customs officials, for example, according to [redacted] may have worked 20, 30 or 40 years. They get a pittance in pay, they see the squeezing going on, their families' condition becomes financially desperate, they finally do it. (b)(6)

The tax system makes it very easy for collectors to take a cut. In fact, [redacted] said he challenged anyone to name one company in Taiwan that paid its taxes properly. (This comment has been repeated to the RO on numerous occasions by other businessmen.) (b)(6)

Although he wasn't here three years ago, [redacted] said he was quite convinced by the comments of others that corruption has only become serious in the last, roughly, three years. Before that time, prices had not quite squeezed the civil servants as severely as they have subsequently. And, mainlanders still harbored faint hopes they would be returning to the mainland. Now "there is no one" who really believes he will return, except, perhaps, a few people like President Chiang. And so, everyone is watching their current financial position more carefully because they are trying to settle down for the long run. (b)(6)

Economic Comments

[redacted] thought the figures on economic activity were most unreliable; "you can get figures drummed up for anything". He felt that standards of living were already beginning to slip backwards. (b)(6)

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He thought there were few incentives to produce and until there are, the situation is almost sure to get worse.

The President's emergency edict of September 1, in the view of [REDACTED] was viewed by both mainlanders and Taiwanese as largely a soak the poor program, in spite of all the talk about its being the reverse. The charges that are effectively passed on to the public are largely those that poorer people will pay, such as those on bus and rail fares. (b)(6)

Taiwanese-Mainlander Relations

He thought there was little improvement in Taiwanese-mainlander relations. "This is something that can only be changed gradually over a long period of time." He thought the mainlanders treated the Taiwanese as little more than monkeys. On the other hand, though he liked the Taiwanese, he thought they had picked up some of the worst aspects of both Japanese and Chinese. He considered them corrupt, too emotional, and - at the same time - too easily regimented.

Attitudes Toward Americans

[REDACTED] thought there was no real animosity toward the Americans in Taiwan. Most people, mainlanders and Taiwanese, were too concerned about day-to-day matters to waste any time thinking about the Americans. Nevertheless, said [REDACTED] you Americans should never assume that your aid is appreciated. He thought it wasn't human nature to be grateful to one to whom you think you are obligated. (b)(6)

[REDACTED] was particularly critical of ICA personnel. He said, yes, he knew there were many good people, but all too often there are people who do not have the mixture of temperament, experience, empathy toward Chinese, interest in and knowledge of China and business acumen that is required. This train of thinking led [REDACTED] to remark that the urea plant at Nankany is a good example of lack of knowledge "or worse". He said that it was clear that the specifications had been poorly prepared, and the manufacturer according to specifications could not and should not be blamed. He smelled "a kickback somewhere". (b)(6)

[REDACTED] said he respected the senior TDC and MAAG officers he had met (specifically mentioning Admiral Smoot as an impressive individual), but he could not avoid the feeling that there were far too many U.S. military personnel in Taiwan for the needs of the Chinese military. (b)(6)

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[redacted] said one of the bright spots in Taiwan was the fine work of JGMR. The organization's morale and the real interest in improving Taiwan was encouraging. (b)(6)

[redacted] was concerned that the U.S., with good intentions was trying to push too rapidly for democracy in Taiwan. "It's obvious that there is nothing like real democracy here now." But, he said, the circumstances that exist in Taiwan would make democracy unworkable. He said that if there were a free election tomorrow, "if such a thing were possible", the present government would be voted out by the Taiwanese and mainland opposition. But, he added, the chaos that would exist after the new group took over would be tremendous. They would either have ruined Taiwan or be voted out of office just about the time they had begun to learn how to run the island. [redacted] thought the United States should press through the governmental apparatus that exists today - for those measures immediately needed in view of the Communist threat - and then work for democracy in the long run, by emphasizing education. He thought military matters should be deemphasized in favor of education, hospitals, roads and other communications media so that an informed citizenry could develop. (b)(6)

He was not impressed by evidences of "American culture" in Taiwan. In particular, he was angered by the Armed Forces Radio Taiwan. He said that the rock and roll music and the poor pronunciation of the newscasters made one shake his head with puzzlement. He thought more classical music, better pronunciation, less emphasis on horrible crimes in the United States would create a better reaction among the Chinese. He was impressed by the number of Chinese who did listen to AFRT, but he was sure its influence would be better as a result of such changes mentioned above. He also thought the remarks that "each individual American is an ambassador of his country" ought to be said in less of an advertising announcement tone. The announcer might just as well be saying, "Tums are good for an upset stomach".

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MEMORANDUM OF CONVERSATION

PARTICIPANTS:

[REDACTED] Advisor to
Overseas Affairs Commission.
Alexander L. Peaslee, First Secretary of Embassy.

301 (b)

DATE:

September 16, 1959

SUBJECT:

Views of Advisor to Overseas Affairs Commission.

Commission

[REDACTED] is an advisor to the Overseas Affairs

301 (b)

301 (b)

Personally, he is slender, about 5'7" tall, speaks excellent English, Cantonese and Mandarin. He is well aware of western ways though he has not been far from the China area. He is generally frank and objective. Though no suspicion was ever thrown over him, the fact that he was a department chief in Governor K. C. Wu's government has, perhaps, cast a slight pall on GRC attitudes toward him. However, he remains a close companion and friend to both CHENG Yin-fen, former head of the OAC and still head of the overseas Chinese work of the Kuomintang, and C. M. CH'EN the present head of the Overseas Affairs Commission.

The Reporting Officer considers the remarks below were made frankly and objectively. The RO has known him for about a year and a half and has always found him a reliable commentator on overseas Chinese and other matters relating to life in Taiwan.

[REDACTED] said he was worried about the increasing tendency for government personnel to pull in their horns and not do anything. He said they are more and more tending to operate on the principle that he who does something eventually will make an error and pay for it. He who does nothing will not make a mistake.

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He thought there were too many organizations and each unit had too many people. When one tries to do something, it involves many organs and "you are always likely to get in trouble with someone".

██████████ said he had pinned high hopes on the Wang Yun-wu "Hoover-type Commission" which was set up last year, "but it, too, seems to have been prevented from doing much".

Corruption, according to ██████████ "is definitely on the increase". This has been particularly noticeable, in his opinion, during the last two years. He thought part of the reason for the increase in corruption was that pay was far too low for lower and middle-echelon government employees, so they found they had to squeeze a bit. Once started, "some get greedy". Another reason for the increase, ██████████ thought, was the growing interest in settling down, which means people have started to worry more about their long term financial position.

██████████ said every company in Taiwan keeps two sets of books, one for their records and one for the tax collectors to peruse. Taxes are far too high for the ability of companies to pay, but, then, no company pays anything approaching the amount it could be expected to pay. According to ██████████ GRC officials at high and low levels have the idea that they are not there to help private businessmen and others, but to control them. And businessmen retaliate by trying to outfox the government. "The Government wins some of the battles, but it is losing the war with the businessmen." Mr. ██████████ thought the officials should be inculcated with a spirit of helpfulness toward business, but he was not so sure how this could be accomplished.

People who are otherwise honest and who are horrified at robbery, etc., feel not the slightest compunction in outwitting many government regulations, which they feel were not set up in the interests of the public. As one example, ██████████ cited the prohibition on dealing in greenbacks, "99.9% of the Chinese who have any money at all deal in greenbacks", he said.

As an example of the problems in dealing in the GRC bureaucracy, ██████████ cited his own experience when he was head of the Provincial Information Department. He thought everything should be done to encourage the export of publications printed in Taiwan as a counter to the flood of Chinese Communist publications in Hong Kong, Japan and Southeast Asia. He came up with a modest program but got nowhere with it, because too many organs became involved and some felt their prestige and functions were involved. "The little officials had no authority to make a decision, and the big officials didn't think

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they should be bothered by such a relatively small question. "I was director of a government department and knew whom to see. Think of the problems of the private individual!"

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